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**Council Finance Committee Zoom Meeting**  
**July 6, 2023**  
**Via Zoom**

Council Attendees: Julie Pignataro, Emily Francis, Kelly Ohlson

Staff: Tyler Marr, Travis Storin, John Duval, Nina Bodenhamer, Ginny Sawyer, Lockie Woods, Lawrence Pollack, Dawn Downs, Victoria Shaw, Aaron Reed, Kendall Minor, Lance Smith, Gretchen Stanford, Chad Crager, Jeff Rochford, Molly Saylor, Jacob Castillo, Terri Runyan, Gerry Paul, Blaine Dunn, Adam Halvorson, Jo Cech, Randy Bailey, Renee Reeves, Dave Lenz, Sheena Freve, SeonAh Kendall, Zack Mozer, Erik Martin, Jill Hueser, Patty Netherton, Carolyn Koontz

Others: Kevin Jones, Chamber  
Sady Swanson, Coloradoan

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Meeting called to order at 4:00 pm

Approval of minutes from the May 4, 2023, Council Finance Committee Meeting. Kelly Ohlson moved for approval of the minutes as presented. Emily Francis seconded the motion. The minutes were approved unanimously via roll call by; Julie Pignataro, Emily Francis, and Kelly Ohlson

**A. Utility Customer Information System**

Lance Smith, Sr. Director of Finance for Utilities  
Gretchen Stanford, Utilities Deputy Director of Customer Connections

**EXECUTIVE SUMMARY**

An appropriation ordinance is being brought for your consideration from the Light & Power, Water, Wastewater and Stormwater enterprise funds' available reserves. The use of these reserves is necessary to implement a modern Utility Customer Information System – Customer Self Service Portal (CIS-CX) Solution. This appropriation request is the second, and final, such request related to the new CIS-CX.

The first request for \$4.25M was made in March as the City was assessing vendor proposals. Those funds were appropriated earlier so that the City could begin the process of temporarily increasing staffing for the implementation while contract review and negotiations were being finalized. The City has now identified the Vendor of Choice, reviewed the functional requirements in detail with that vendor and negotiated terms of the contract sufficient to determine the amount of investment needed to successfully deploy a new CIS-CX. This appropriation request of \$9,700,000, if passed by the full City Council, will provide the additional funding

needed for all costs associated directly with the software deployment, software testing, training, and the organizational change management associated with moving onto a modern CIS-CX.

The total amount being requested for appropriation here is:

Software as a Service Implementation	\$3,250,000
Software Licensing through Implementation	\$2,400,000
Organizational Change Management	\$1,500,000
Testing Protocol Development and Testing	\$900,000
Training Development and Initial Training	\$900,000
Business Process Analysis and Alignment	<u>\$750,000</u>
Total	\$9,700,000

With this appropriation, this CIS-CX implementation will begin in October of this year and be fully operational by the end of 2025.

**GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

1. Does the Council Finance Committee support bringing an appropriation ordinance forward for the consideration of the full City Council to support the licensing and full implementation of the modernization of the Customer Information System – Customer Self Service Portal?

**BACKGROUND/DISCUSSION**

In March the initial request for funds to move ahead with the selection, implementation, and deployment of a modern Utility Customer Information System – Customer Self Service Portal (CIS-CX) Solution was brought to this Committee for consideration (See Attachment 1). Following the support of this Committee at that meeting, an appropriation ordinance for \$4,250,000 was adopted by the City Council. Since that time, the following progress has been made on this effort:

- Following the 5 weeks of product demonstrations, the Vendor of Choice has been selected;
- Secured funding for anticipated expenses for project management, legal review of service contract, and to begin the process to temporarily backfill those positions needed for this implementation;
- Agreed to extensive contract requirements with the Vendor of Choice and refined the full implementation costs.

At that time, it was explained that a second appropriation would be necessary before the capital investment is fully funded and the service contract could be signed. Costs associated with the full scope of the solution including data migration, software interfaces, business process mapping, organizational change management, testing and training, as well as the direct implementation of the selected CIS-CX, have been defined, discussed, and negotiated by the outside project management consultants, the Vendor of Choice, and Fort Collins Utilities. The funds being requested for the second, and final, appropriation associated with this software implementation will be utilized as follows:

Software as a Service Implementation	\$3,250,000
Software Licensing through Implementation	\$2,400,000
Organizational Change Management (OCM)	\$1,500,000
Testing Protocol Development and Management	\$900,000
Training Development and Initial Training	\$900,000
Business Process Analysis and Alignment	<u>\$750,000</u>
Total	\$9,700,000

#### Software as a Service Implementation - \$3,250,000

All of the Vendor of Choice's direct costs associated with the implementation itself are included here. The chosen solution is a hosted solution, meaning that it will reside on software servers owned and maintained by the Vendor of Choice. A dedicated implementation is expected to provide over 22,000 hours toward this implementation during the 24-month implementation schedule.

#### Software Licensing through Implementation - \$2,400,000

Because this is a hosted software solution, the Vendor of Choice will begin realizing most direct costs associated with having a dedicated server at the beginning of the implementation. As such, monthly subscription fees will begin with the implementation itself, rather than at the time of going into production. Subscription fees will increase over time due to customer growth over a certain number and with modest, annual inflationary adjustments per contractual terms.

#### Organizational Change Management - \$1,500,000

The current utility billing system will have been in place for over 20 years before this 24-month implementation is completed. Software capabilities have increased tremendously over the past 20 years which is one of the primary reasons for this modernization. This change will require strategic change management to be a successful transformation of the utility customer experience. Outside change management consultants will work together with internal change agents to ensure the success of this implementation while allowing employees to adapt and embrace this change.

Change management will be approached from both an organizational perspective as well as a more direct project perspective. From an organizational perspective outside change management consultants will work with Utility staff and leadership to mature the OCM capability within the organization. More specifically, focusing on how the new CIS-CX solution will be a major change itself, change management strategies will be developed and deployed to ensure the success change to this transformational application.

#### Testing Protocol Development and Management - \$900,000

Testing is critical to any software upgrade, especially those that are intended to be seamless and consistent with previous software. This implementation will require rigorous functional testing, system integration testing, operational readiness testing, stress testing, and regression and user acceptance testing. Testing scripts will have to be developed consistent with current and anticipated rate structures and business processes.

Software as a Service (SaaS) is becoming more and more common with modern utility billing systems. There are several advantages to SaaS over traditional utility-hosted billing systems including having access to the latest releases of the software solution. However, in order to most efficiently manage all SaaS clients, it is necessary for software vendors to minimize the number of different release configurations clients are running at any given time. This is done through required software releases to clients throughout the year. Because of this, testing is done not just during the initial implementation but also throughout the life of the solution with new releases.

#### Training Development and Initial Training - \$900,000

Any new application requires some training but a software application that is this critical to Utilities' success requires extensive training to ensure that employees understand and are confident and capable of utilizing the new CIS-CX. A Training Manager will help the City conduct a training needs assessment before developing training strategies, course curriculums and end user training materials specific to the job duties of each end user. All employees who will be utilizing the new CIS-CX will be trained prior to using the solution in their capacity.

Business Process Analysis and Alignment - \$750,000

The new CIS-CX will be capable of supporting current rate structures and customer services and through regular updates will adapt as those change in the future. In order to understand how changes to any existing business processes may affect customers, it is necessary to understand all business processes that are part of the Meter to Cash lifecycle of each utility service provided. All existing business processes with touch points to the Meter to Cash lifecycle will be documented in an “As Is” state and then refined into a “To Be” state through workshops with subject matter experts and end users. These documented business processes will then serve as the basis for developing the necessary testing, training, and future business process improvements.

**Financial Considerations**

Appropriation by Enterprise Fund

As the customer information and billing system is needed by each utility to generate monthly operating revenues, each utility requires such a system and therefore should contribute to the upgrade or replacement of such a system. While some rates are more complicated than others and some require meter consumption data to assess, billing for each utility requires much of the same information as any other utility. Because electric monthly charges are more complicated than flat stormwater rates and unmetered wastewater use, there are additional billing components for billing electric customers. Hence, it is appropriate to attribute more of the shared costs to Light & Power. A similar argument applies to Water billing. The annual subscription costs for this system are divided between the four utilities as follows:

Light & Power	50.0%
Water	25.0%
Wastewater	12.5%
Stormwater	12.5%

This same cost sharing ratio is proposed for the implementation costs:

Light & Power	\$4,850,000
Water	\$2,425,000
Wastewater	\$1,212,500
Stormwater	<u>\$1,212,500</u>
	\$9,700,000

The total expected cost of implementing a modern, SaaS customer billing and portal will not exceed the combination of this and the previous appropriation requests:

First Appropriation (Ordinance No. 36, 2023)	\$4,250,000
Second Appropriation	<u>\$9,700,000</u>
Total Requested Appropriations	\$13,950,000

Enterprise Fund Reserve Balances

The funds being requested herein will need to come from available reserves of each utility. These funds are above and beyond funds set aside within the reserves to meet minimum fund balance requirements and any previous appropriations made but not yet spent. As the table below shows, each enterprise fund has sufficient available reserves for both anticipated appropriations related to modernizing the CIS-CX solution.

(\$ are in millions)	Light & Power	Water	Wastewater	Stormwater
Available Reserves EOY 2022	\$29.0	\$45.1	\$19.5	\$15.0
LESS 2023-24 BFO Investments	(\$4.7)	(\$19.1)	(\$7.2)	(\$1.6)
LESS Initial CIS-CX Appropriation	(\$2.1)	(\$1.1)	(\$0.5)	(\$0.5)
Estimated Available Reserves	\$22.2	\$24.9	\$11.8	\$12.9
Amount Being Requested	(\$4.9)	(\$2.4)	(\$1.2)	(\$1.2)
Remaining Available Reserves	\$17.3	\$22.5	\$10.6	\$11.7

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## GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does the Council Finance Committee support bringing an appropriation ordinance forward for the consideration of the full City Council to support the licensing and full implementation of the modernization of the Customer Information System – Customer Self Service Portal?

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## DISCUSSION / NEXT STEPS

Kelly Ohlson; how am I supposed to know that this is even close to the right amount of money?

Lance Smith; we did have a failed implementation a few years ago. When we issued the RFP, we got 6 responses. There were some that were less than this and there were tier one solutions that were considerably more than this. We are in the middle of the range we saw with the 5 proposals. We are also leaning heavily on our outside consulting firm, and they are advising us we should expect somewhere between \$12M - \$15M.

Kelly Ohlson; why does this take so long to implement?

Lance Smith; our vendor was proposing an 18-month implementation, but we ask for a longer 24-month implementation as we want to go live while our current system is still available to us.

Kelly Ohlson; how long will this last?

Lance Smith; this is fundamentally different than what we did before - we didn't regularly update that as we went along before. This time, we will be running software on their computers. They are going to be maintaining the hardware and they will update the software a couple times per year so we will be current. We do have to agree to an update at least once per year.

Kelly Ohlson; assuming that this company has a pretty good track record in the US.

Lance Smith; we did 13 reference checks with entities using their software across the US. The reference checks were favorable.

Kelly Ohlson; I am good.

Julie Pignataro; I was surprised that you have to pay all of the licenses up front. How many licenses?

Lance Smith; we are paying for a subscription so there is not a limit on the number of licenses. They are standing up a server with the software which is why they are wanting us to pay from day 1. It feels strange to pay for something I can't really use it on day 1, but that is the business model they use.

Julie Pignataro; does this provide as many licenses as we will need?

Lance Smith; yes

Julie Pignataro; 5-year contract at \$1.25M per year - is there an annual percentage increase in that?

Lance Smith; we will try to limit that to 3% for the first 5 years in the contract.

Julie Pignataro; will this be a 5-year contract?

Lance Smith; yes

Julie Pignataro; so, could you put this out for another company to pick up the system after 5 years?

Lance Smith; correct, after 5 years if we did not want to continue this contract, we would be looking at another vendor.

Travis Storin; the Council adopted a code revision for software specifically, we are now able to go up to 10 years. This implementation meets the criteria for an enterprise resource platform – those are long relationships. It takes substantial work to go live - a big leap of faith at the outset – we have to trust our due diligence.

Lance Smith; we are talking with them about getting the same terms for either 7 or 10 years.

Julie Pignataro; after five years if things are going well, they have the leverage. We want to be careful that they do not increase their subscription fees. Is this company reputable? I know you said you talked with their references. Do they have a reason to want to keep their reputation?

Lance Smith; this is a significant investment on our part. The situation we won't have is the situation we have today with a highly customized system that we can't move away from easily. We are trying to avoid fee increases.

Julie Pignataro; so, this is approximately a \$300K increase, right?

Lance Smith; correct

Julie Pignataro; where will these costs come from long term?

Lance Smith; it will be passed on to the customer which works out to be approximately \$1.10 per customer per month. That cost will be included in bills before the system goes live. There will be a 2-year period where we will continue to pay our current vendor to license their software and continue to use it while we are implementing this. We will be paying for 2 systems for that period.

Julie Pignataro; what is a healthy fund balance to have? What are reserves typically used for?

Lance Smith; the reserves are typically utilized for capital investments. This is a capital project, but there is not a wire or pipe that goes into the ground. As far as what is a healthy balance, after this proposal, we would have at least 2 years of capital spend in each utility which is fairly healthy.

Travis Storin; that reserve is 25% of operating costs for each individual utility – we never go below that level.

**Action Item;**

Julie Pignataro; when this comes to the full Council, it would be helpful to have a visual showing all fund balances and the safe thresholds.

Travis Storin; absolutely - we do have all fund balances coming to the Council Finance meeting in August to coincide with the upcoming budget revision cycle.

Julie Pignataro; what are the possibilities of bundling Connexion into this?

Lance Smith; we are not looking to do that – we just stood up the billing system for Connexion. And this vendor doesn't currently have an internet module, but it is something that they are working on. This could be something we could do in the future.

Travis Storin; possible from a customer standpoint to have bill merging software where it takes data from the two systems and a customer is presented with one bill - but that would be pretty far down the road.

**Result;** The Council Finance Committee approved this to be brought forward to the full Council.

## **B. Sustainable Timberline Recycling Center**

Molly Saylor, Interim Manager, Environmental Sustainability

Jacob Castllo, Chief Sustainability Officer

### **EXECUTIVE SUMMARY**

Staff will provide an update on the "Sustainable TRC" planning project, including the results of an operator scenario analysis. The analysis compares continuing to leverage a contracted vendor for hauling and "Hard-to-Recycle" yard operations with bringing hauling and operations fully in-house. Impacts are compared across six goals for the site, including a quantitative financial analysis. Findings from the financial analysis demonstrate for between \$33,000 and \$149,000 in projected additional cost, the community could see significant benefits across several goal areas. Based on these findings, staff plans to submit an offer to bring the TRC fully in-house as part of the budget revision process.

### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

1. What questions do you have about the findings of the operator scenario analyses?
2. What questions do you have about a revision offer to bring the TRC in-house?

### **BACKGROUND/DISCUSSION**

**Past Council Finance Committee (CFC) guidance:** CFC meeting on 07.07.21 requested staff conduct further analysis on bringing TRC operations fully in-house and to come back for further discussion.

**Sustainable TRC project history.** The Timberline Recycling Center opened at its current location in 2017. Leveraging the first five-years of experience at the site, staff initiated a process to create a new five-year plan for the site, including:

- Operational aspects (including operator scenarios)
- A review of accepted materials and new circular economy and recycling opportunities
- Equipment replacement planning
- Accessibility and equity aspects of the site
- A long-term vision for the TRC expressed as site-specific goals.

**Planning timeline.** The Sustainable Timberline Recycling Center (S-TRC) project began in 2021 and included an initial conversation with the Council Finance Committee. After a pause to focus staff efforts on the Contracted Waste Hauler project, staff reinitiated the project in early 2023 focusing initially on operator scenarios. The project phases are:

- Phase I: Deeper dive into and decision-making on whether to bring TRC operations in-house.
  - Consider impact to TRC goals.
  - Consider impact to City finances.
- Phase II: Focus on 5-year site plan and operational decisions toward long-term vision

**TRC goals and operator scenarios.** The current operator scenario is one in which all the hauling for the site (free Everyday-Recyclables Yard and paid Hard-to-Recycle Yard) is contracted out to a vendor. The same vendor also operates the Hard-to-Recycle Yard.

An alternative operator scenario is to bring hauling and operations of the entire site “in-house” to be operated by City staff. There are trade-offs with each scenario. To compare options on a consistent basis, staff have identified six high-level goals for the TRC and have compared operator scenarios across each goal (qualitatively and, when possible, quantitatively). The goals for the site include:

- **Diversion.** Recycle as many materials as possible by expanding hard-to-recycle materials and providing convenient drop-off for everyday recyclables.
- **Safety.** Operations are safe for employees and customers.
- **Financial responsibility.** The site manages its financial resources in a responsible way, minimizing City costs while maintaining performance on other goals.
- **Service.** Maintain excellent customer service, in keeping with community and City standards.
- **Accessibility and inclusion.** Ensure site is inclusive for all parts of the Fort Collins community, especially BIPOC and disabled community members.
- **Flexibility.** Recognizing how fast the Colorado recycling landscape is evolving, ensure the site can quickly evolve.

**Approach and key assumptions.**

- Staff has approached these analyses qualitatively and, for financial responsibility, also quantitatively.
- Key assumptions about City’s role in each scenario
  - Contracted scenario (status quo):
    - Manage contract and vendor (note: all ongoing costs are pass-through)
    - Provide site supervision for the Everyday-Recyclables Yard
    - Own and operate equipment for Everyday-Recyclables Yard
  - In-house scenario (alternative):
    - Manage and supervise the entire site (i.e., both yards), including staffing (3.0 FTE)
      - Gatehouse staff (2.0 FTE)
      - Driver (1.0 FTE)
    - Haul materials for the entire site



- Purchase truck
- Purchase equipment for Hard-to-Recycle Yard (capital costs) thus owning all equipment for the entire site.
- Provide safety and customer service training for operations and hauling staff.

## Results of operator scenario analyses

### Financial responsibility (quantitative)

The below table summarizes financial analysis comparing the cost of bringing these services in-house versus contracting it out, using assumptions reflecting *current conditions*.

	Contract	In-House	Diff btw contract and in-house	In-House (Range)	Context
Up-front capital	N/A	\$298k	\$298k	\$298k	
Annual operational costs	\$380k	\$562k	\$182k	\$450k - \$701k	
Staffing	\$195k	\$351k	\$156k	\$317k - \$413k	<ul style="list-style-type: none"> <li>• Data - Driver embedded in hauling</li> <li>• Delta - City pays more competitive wages</li> </ul>
Equipment Replacement	\$29k	\$81k	\$52k	\$67k - \$95k	<ul style="list-style-type: none"> <li>• Data - Depreciation of operator equipment embedded elsewhere</li> </ul>
Hauling & Maintenance	\$150k	\$124k	\$(26k)	\$111k - \$137k	<ul style="list-style-type: none"> <li>• Data - Also includes driver</li> </ul>
Site expenses	\$58k	\$58k	-	\$49k - \$65k	<ul style="list-style-type: none"> <li>• Not operator dependent</li> </ul>
Commodities	\$(1k)	\$(1k)	-	\$(47k) - \$45k	<ul style="list-style-type: none"> <li>• Not operator dependent</li> </ul>
Gate fees	\$(50k)	\$(50k)	-	\$(46k) - \$(54k)	<ul style="list-style-type: none"> <li>• Not operator dependent</li> </ul>

Orange = W-N is lower; green = City is lower; grey = no difference

Note: Not all data for the contracted scenario is possible to parse into the same categories as the in-house scenario. The context column indicates how data is aggregated between categories (see context marked “data”) and highlights factors that drive true differences between scenarios (see context marked “delta”).

### Key takeaways:

- Projected \$182,000 additional cost to bring TRC in house.
- Primary element of cost difference is increased wages for City employees.
- Results represent historical and current conditions – Influencing factors could increase costs toward the high end of the range in either scenario.

The below table summarizes a second financial analysis comparing possible *future* costs of bringing services in-house versus contracting it out. The key difference is increased hauling rates, which is a likely change when the contract is renewed in 2026.

	Contract	In-House	Diff btw contract and in-house	In-House (Range)	Context
Up-front capital	N/A	\$298k	\$298k	\$298k	
Annual operational costs	\$529k	\$562k	\$33k	\$450k - \$637k	
Staffing	\$195k	\$351k	\$156k	\$317k - \$413k	
Equipment Replacement	\$29k	\$81k	\$52k	\$67k - \$95k	
Hauling & Maintenance	\$299k	\$124k	\$(175k)	\$111k - \$137k	• Increased hauling costs of \$149k
Site expenses	\$58k	\$58k	-	\$49k - \$65k	
Commodities	\$(1k)	\$(1k)	-	\$(47k) - \$45k	
Gate fees	\$(50k)	\$(50k)	-	\$(46k) - \$(54k)	

Note: red cells indicate a flip to greater cost and green highlights in-house as lower cost

#### Key takeaways:

- Hauling rates may increase by \$149k over today's rates.
- Considering this, the additional cost of bringing the TRC in-house ranges from \$33k to \$182k depending on how contracted hauling rates increase.
- Continued use of outside contractors may expose the City to cost increases higher than internal operations.

**Other goals (qualitative).** The qualitative information gathered by the project team is presented as potential clear or possible trade-offs, depending on staff's level of certainty and experience with the topic. These trade-offs are outlined in the tables below.

Goal	Possible risks	Clear benefits
Diversion	N/A (costs are pass-through in contract)	Reduced barriers & increased flexibility to implement new services
Safety	City sole entity liable if safety issue	Control frequency & content of safety training
Financially responsible	Increase in cost generally and up to \$140k additional cost if equipment fails, costs of diesel rise significantly, or additional staffing is needed	Can more closely track financials and quickly pivot as recycling markets fluctuate. Protected from vendor price increases.
Service	Potential shortage of qualified applicants	Control frequency & content of customer service training

Goal	Possible risks	Possible benefits
Accessible & inclusion		Flexibility in implementing equity and inclusion focused strategies on-site
Flexibility		Increase in ability to respond to changing conditions and needs across all goals

**Key takeaway:** For an estimated \$33k-\$182k annual increase in costs, the community could see substantial benefits across all goal areas and there are possible risks associated with bringing the TRC operations and hauling fully in-house to consider.

**Next steps.** Based on the results of the operator scenario analysis, staff believes the best course of action is to transition operations of the TRC in-house. If the Committee supports staff's recommended course of action, a

Budgeting for Outcomes (BFO) offer will be prepared and presented for Council consideration as part of this year's revision process.

To facilitate the transition, staff will:

- Give notice to the vendor (contingent upon Council's approval of the budget as part of the mid-cycle budget revision) of the City's intent to transition the site's operations and hauling in-house.
- Create a plan and timeline for the transition in site operations and hauling.
  - Staff anticipates the transition would be complete between mid-2025 and mid-2026 and variability due to outside factors (e.g., supply chains) is possible.
  - The transition timeline is largely driven by lead-times of 14-18 months to secure a truck for hauling.

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#### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

- 1) What questions do you have about the findings of the operator scenario analyses?
- 2) What questions do you have about a revision offer to bring the TRC in-house?

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#### **DISCUSSION / NEXT STEPS**

Emily Francis; if we move to in-house, would we be able to recycle more items than going through a contractor?

Molly Saylor; a way to think about that is the level of direct control versus influence. We can add items now working with our contractor but if we went in-house, those steps would be in our purview. We intend all costs to be neutral, to be passed through. On the hard to recycle side, we are looking to charge appropriate fees for the different materials. So, our customers pay for the cost to recycle them. On the everyday recyclable side, we do our best to recover as much of the costs for the different commodities as possible.

Emily Francis; does the contractor charge us more if we add items?

Molly Saylor; short answer is no but I might look to others for a more nuanced answer.

Gerry Paul; as Molly indicated, there would be an incremental cost associated with disposal of additional recyclable materials, depending on what the market is for that particular material. We will try to recover that cost whether the service is being provided by the city or by a third party.

Emily Francis; where is the additional money coming from?

Travis Storin; the start-up costs would be proposed in this revision offer to come from General Fund reserves and the operational costs would be on-going General Fund revenues offset by any fees we collect at the site.

Emily Francis; if we bring it in-house, would there be any change to the fee structure?

Molly Saylor; from where we are sitting now, there are no immediate plans to change the fee structure. That could change as we move forward with our next phase of the planning process and take a bigger picture look at the whole site.

Emily Francis; I am supportive. I think it makes sense to bring this in-house. I just don't want us to bring it in-house and then change the fee structure for our residents. This is a great community asset and I want to keep it that way.

Kelly Ohlson; I am a huge fan of this center. I appreciate the work and the center, and I think there is a lot of room for improvement. I wish we had been in-house from day 1. The quicker we can get there the better, for the community, the city organization, and our residents. We recently took a trip to the Arvada hard to recycle site. They take so many more types of items than we do. If Arvada can do it, so can we and I think we have a much better opportunity to do that bringing it in-house.

Venting a bit, it has been two years since we green lit it while also requesting additional information. I am supportive without any hesitation of bringing this forward in the budget revision cycle. The sooner the better. The timeframe laid out seems to be contingent on how long it takes to get a truck. I am looking for something a whole lot quicker than that, 18 months to get a truck then transition time. I think the timetable of three years is absurd. Three years from now to make this transition is extremely problematic for me.

Travis Storin; we have been looking at several alternatives in addition to flat out purchase of a vehicle. We spent some time looking at the possibility of a rental and secondary markets, both options are unsatisfactory. Unfortunately, we are at the mercy of the vehicle manufacturers. We are seeing this city wide from a fleet perspective, particularly for electric, diesel, natural gas, but also for gasoline as well. We are seeing 12 + months of lead time for vehicles that we would consider customary that we turn around frequently as part of the fleet.

Gerry Paul; We have done preliminary outreach in terms of what the lead time is in the lease and used market. The vehicle market is extremely tight right now.

Travis Storin; once the funding is in place, we would move as fast as allowed while also being realistic on some of the barriers we have on big equipment purchases right now.

Kelly Ohlson; if you get Council approval, I understand that you will move as fast as you can. I think it is going to be better on every level, more adaptable for more products, better service. I trust the city organization to do a fine job. The equity things, we will be able to adapt to change and more quickly. I will be supportive of the budget request. I am disappointed in the time frame but appreciate what you brought forward today.

Julie Pignataro; on the timeline - why couldn't you, with the exception of hiring the driver, work on strategizing the transition and all of the other equipment and hit the ground running if procuring the truck is the long pole in the tent?

Molly Saylor; if our offer is funded, we can start to put a transition plan together for the site and we can get a lot of the other pieces in place before we have a truck. Until we have a truck, we cannot fully take over operations.

Julie Pignataro; it might be helpful to see a chart which shows what can run concurrently and isn't dependent on other things happening. The way it is laid out, it makes it look like nothing is happening between January 2024 and Q2 of 2025 while you are waiting for a truck. That is the PM is me, but I am curious to see if it possible to run enough things concurrently that we could shorten this timeline. I appreciate all of the research. Is staff recommendation that we move forward with bringing it in house?

Travis Storin; we have had a hard time with that. I think what tips it to a yes as far as a staff recommendation is what we are seeing in the hauling market right now in terms of costs. If we knew we would have static hauling costs with the current contractor, it would not have been our recommendation. We have seen some pretty strong signals of 40% - 220% (depending on the material) of potential increases after the current contract term. Even with our waste hauling, we are seeing signals of some pretty significant cost escalation. In spite of the increased costs, we have reason to believe over the long run it would be more financially beneficial in addition to the service benefits that were discussed.

**Result:** Council Finance Committee supports this going forward to the full Council. Great job!

## C. 2023 Light & Power / Broadband Financing

Blaine Dunn, Accounting Director

### EXECUTIVE SUMMARY

City staff is seeking \$60M in financing through a bond offering for an October 2023 closing. These funds will be used for work need in the light and power utility (\$40M) and additional capital needs in Connexion (\$20M).

### GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Does the Committee support bringing a bond issuance Ordinance to Council on August 15<sup>th</sup>?

Does the Committee support bringing an appropriation Ordinance to Council on August 15<sup>th</sup>?

### BACKGROUND/DISCUSSION

#### *Light and Power*

Projects for the Light and Power utility are identified through the strategic financial plan, attached to this AIS. Through the continued capital improvement plan, the Light and Power team have identified several areas needing investment. The primary use of the funds will be to build a new substation in the northeast part of town, help with additional costs due to supply chain issues with transformers, additional system additions, and additional annexation costs being faced by the utility.

#### *Connexion*

In March 2023, Council authorized the reimbursement of capital expenditures through the issuance of bonds. Connexion has now exhausted all currently available funds. Staff presented updated financial projections for Connexion at the January 10, 2023, Work Session. In that meeting, the capital project estimate was updated, reflecting a need to access approximately \$16 million additional capital to complete the network build-out and customer ramp-up by the end of 2024. An additional \$3 – \$5 million for excess operating expenses was also estimated to be needed.

These estimates remain unchanged. The table below highlights the original Business Plan capital assumptions, approved spending updates, project spending to date and the current project estimate.

Description	Business Plan and Approved Updates	05/31/2023 LTD Spent	Current Project Estimate thru Dec 2024
Network Build	\$84M	\$109M	\$110M
Installation (On Trac, boring)	\$13M	\$20M	\$36M
Equipment & All Other	<u>\$12M</u>	<u>\$11M</u>	<u>\$12M</u>
Subtotal Business Plan	\$109M		
Contingency & Re-deploy – Sept. 2021	\$13M		
L&P Reserves Appropriated – Apr. 2022	<u>\$20M</u>		
Total Capital Budget/Estimate	\$142M	\$140M	\$158M

Connexion's maximum funding need is expected by December 2024, with 2025 expected to be breakeven before the generation of excess cashflows that will be able to service the L&P reserve usage payback plus new bonding commitments. To date, Connexion has issued \$129.6 million of the \$150 million voter approved amount to support Connexion's build. This leaves over \$20 million available for additional funding needs.

#### *Debt Structure*

The City is seeking to borrow a total of \$66.1M, \$66.5M (\$60M of principal) for the projects and \$550k in closing costs, with the bonds. The bonds will have a fixed interest rate and a mixed repayment term of 21 years. Light and Power will make level debt service payments throughout the term, while Connexion will pay interest only until the previous 2018 bonds are paid off. Connexion will then pay off the remaining principal balance in two years. The City will make semiannual payments starting in 2024 with the last payment occurring in December 2044. The average annual debt service for Light and Power will be \$3.1M. Connexion will pay \$1M each year, until paying off principal with debt service of \$10.7M.

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#### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

- 1) Does the Committee support bringing a bond issuance Ordinance to Council on August 15<sup>th</sup>?
- 2) Does the Committee support bringing an appropriation Ordinance to Council on August 15<sup>th</sup>?

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#### **DISCUSSION / NEXT STEPS**

Kelly Ohlson; what did the new substation in the northeast part of town cost approximately?

Lance Smith; we are currently estimating the new substation to cost between \$12-15M for the actual equipment itself and when we can get that equipment – transformers are hard to get at this point.

Kelly Ohlson; how do we fair share recovery? How do we make sure that new development and growth is paying their fair share for a new substation that is driven by new growth and development - how do we factor that into our finances?

Lance Smith; this would be a project that when are looking at electric capacity fees, we will look at our capital investments. Is this something to replace an existing asset and should fall on existing rate payers or are we adding capacity to the system – if that is the case, that would be rolled into the electric capacity fee. We develop our Utility Plant Investment Fees based on the premise that growth should pay their own way. We are fully loading those costs into our development and electric capacity fees.

Kelly Ohlson; I was just talking about the part that is growth and new development and confirming that we are covering those costs in a different way. Do we currently have some equivalent to the parks refresh for other aging infrastructure (mini-infrastructure plan)? Does what we are doing today relate to that in any way?

Lance Smith; we have an existing 10-year Capital Improvement Plan and are in the process of refreshing that this year ahead of the next BFO cycle. Phillip Amaya, our new Light & Power Director, joined us 6-9 months ago and he is wanting to look at all of that again, so we have been looking at that in depth. We do have a lot of replacement renewal infrastructure in the CCIP. I don't recall seeing vaults themselves but it is more of the infrastructure within the vaults.

Kelly Ohlson; I was using that as an example as I was told we might have let that slide for awhile and need to do some catch up.

Lance Smith; we do have a lot of infrastructure that we need to renew. We are looking at a revised design for the vaults. We do have a long-term capital improvement plan.

Travis Storin; the 10-year utilities capital plans are done for each utility and are updated on a 2-year cadence to coincide with BFO, so that there is a constant refresh of capital and infrastructure needs there. This financing is for projects that are copacetic with that CIP.

Kelly Ohlson; this is more the annexation costs, the supply chain issues, the substation and then it says 'additional system additions'. I would like to have some more definition around 'additional system additions'. I don't think this helps fund the CIP.

Travis Storin; I will defer to Lance on the 'additional system additions' piece of that question, but the CIPs are not exclusively funded from debt. We accomplish a great deal of that planned work through the generation and use of reserves.

Kelly Ohlson; so, I do need some additional definition around 'additional system additions' I am reading this that it doesn't really fund the classic refresh, replace, update. Does this really channel any money over to the CIP? I am going to support this, but I want to understand what we are saying yes to.

Lance Smith; the system additions are new growth, so we are adding something to the existing system. What we have seen in the past has been significant amounts of development fees coming in for electric service. So last year, we had to do a mid year appropriation to fund some of the new development because it was higher than we had originally planned for. When we say, 'additional system additions' what we are saying is higher than anticipated – development fees have come in. On the refresh part, the new substation is obviously going to serve new customers. The challenges on the supply side – we do have plans to renew cables and transformers which is a big supply chain challenge as they have an 18 month + lead time. We had previously used a 12-month time frame. Now we need to order them 2 years in advance so that will require additional funding at this point so some of that is being brought forward here.

Kelly Ohlson; I don't believe this actually helps the refresh, renewal, replacement of things – like infrastructure down in the vault for example need a clear answer.

Lance Smith; I would say - yes, it is but I think when we bring this to Council if you are supportive of that, we will provide the CIP and I will be clear about what is refresh versus what is new.

Kelly Ohlson; I am good - thank you

Emily Francis; I am good.

Julie Pignataro; I am good too.

Result; The Council Finance Committee supports bringing this forward for First Reading with the full Council. Blaine will add more information on the use of the Light & Power funds on refresh and new capital.



## **D. Opioid Settlement**

Judge Jill Hueser

### **SUBJECT FOR DISCUSSION**

Appropriation of Opioid Settlement Funds to Municipal Court Drug Court Program

### **EXECUTIVE SUMMARY**

I am asking Council Finance to support the appropriation of funding already paid and scheduled for future payments to the Court to be utilized in creating a municipal court drug program to address high needs individuals with substance abuse disorders in our local community.

### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

Does Council Finance support an appropriation of current and future opioid settlement funds to the court for a substance use disorder probation program/drug court?

### **BACKGROUND/DISCUSSION**

Council has consistently expressed support for a drug court program in municipal court. The court has worked over the last two years to plan for a drug court. This would be the first of its kind in the state, but other municipal courts have already expressed interest in creating a similar program.

Drug courts are proven to reduce recidivism, provide savings in criminal justice and resource costs, and help individuals struggling with substance use disorders achieve sobriety and become positively contributing members of the community.

The opioid settlement money must be used for certain types of programs, and drug court fits those parameters. While it is not a huge amount of money, it is a starting point for our program and can hopefully be leveraged through grant-writing. In the past, we have not been able to apply for many federal grants that could fund this type of program because we did not have dedicated matching funds.

The group working on the opioid settlement funding agreed unanimously that the impact of this funding would be maximized by the court in developing its drug court program.

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### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

Does Council Finance support an appropriation of current and future opioid settlement funds to the court for a substance use disorder probation program/drug court?

### **DISCUSSION / NEXT STEPS**

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Kelly Ohlson; I can't think of a better use – I like the direct correlations from what the money comes from to what it goes to. This is a go for me.

Judge Jill Hueser; it must be used for certain types of programs. We have verified that this program does quality for use of these funds.

Emily Francis; I support this.

Julie Pignataro; I questioning the small amount (\$75K). Do you feel good about the amount?

Judge Jill Hueser; we will be coming back to Council next year to appropriate the next year's funding from the opioid funding. We won't be able to spend more than \$75K between now and the end of the year to get this program off the ground. That will also give us some time to start with the grant writing and see how much traction we are able to get with that. When we come back next year to request an appropriation, we will hopefully have a better idea if this will be sufficient funding. We may be able to fund it from grants and the opioid funding settlement. For right now, this is a good start for us.

Julie Pignataro; by this year you mean December 2023?

Judge Jill Hueser: it is for the next 6 months. It may not be January 2024. It might be more in the spring once we have someone hired. Part of it is, are we going to be able to get these funds from the federal government? We are going to start grant writing as a big part of our work the rest of 2023 and getting the team up and running. We are not waiting until BFO next year to talk about this again.

Meeting adjourned at 5:30 pm.